

Prospect Pensions Briefing Note 2017/00423

March 2017

Government Green Paper – Security and Sustainability in Defined Benefit Pension Schemes

This briefing covers the Dept for Work and Pensions paper which outlines their thinking on how regulation of defined benefit pension scheme might be reformed. The paper can be seen at <https://www.gov.uk/government/consultations/defined-benefit-pension-schemes-security-and-sustainability>

Prospect will consult with our Executive's pensions committee and will be responding to the paper and the questions raised therein.

Main Issues raised in the paper

The paper is a response to calls from many in the pensions industry that DB schemes have become overly generous and unaffordable; without enough flexibility for sponsoring employers. As a Green Paper, it does not give a definitive government view on what their position is, but gives a flavour of the views they hold.

Views expressed in the paper include:

- There is not enough evidence to support the view that DB pensions are generally unaffordable for employers.
- There are some employers for whom the level of deficit repair contributions may become unsustainable.
- Where pension schemes are stressed in this way, Government is keen to receive feedback on options including:
 - Separating the scheme from the employer
 - Renegotiating benefits
 - Giving increased support from the Pensions Regulator (who could be given extra powers)
- Further research will be commissioned on factors that influence trustees' investment strategies and choice of asset classes.

- There needs to be a drive to promote greater understanding of valuations and what is meant by deficits in order to provide a better sense of risks to members.
- In respect of arguments (made by Prospect among many others) that valuation assumptions linked to future investment growth are too pessimistic, resulting in artificially high deficits, DWP thinks that it is not clear that discount rates are overly pessimistic, and that there is no evidence that there is any problem with the current flexibilities available in respect of this measure.
- Protecting members' interests is at the heart of DWP's policy.

Initial Commentary

On the whole many of these views are encouraging, and government seem to have dismissed (for now) many of the most draconian proposals that had been circulating.

The stated desire to protect members' interests is welcome. We need to bear in mind that protection of interests can fall into two categories in pension terms – protection of accrued rights versus the protection of the ability to carry on building up more pension. Under the current structure the balance of these protections has been significantly tilted towards the former.

There is nothing in any of these submissions which gives any indication of a desire to keep quality pension schemes open for future accrual. Both forms of protection remain a priority for Prospect.